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**Does religion matter to informal finance?
Evidence from trade credit in China**

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Does religion matter to informal finance?

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Abstract

Informal finance plays an important role in transitional economies with weak legal institutions, like China. As a major informal finance instrument, trade credit relies on informal institutions and enforcement. We argue that religion enhances the ethical climate in which firms do business, and we predict that religiosity increases trade credit, in that religion enhances enforcement by increasing non-pecuniary cost and reducing risk-taking. The results based on Chinese non-state listed firms between 2003 and 2013 confirm our prediction that firms located in high religiosity regions are associated with more trade credit, especially in regions where formal institutions are weak or formal financing channels are limited. Furthermore, we show that religiosity reduces overdue trade credit. Finally, the results are driven by Buddhism, Taoism, and Christianity but not Islam.

Keywords: trade credit; religion; informal institution; informal finance

JEL codes: G3; Z12

INTRODUCTION

Religion is believed to provide social capital such as religious beliefs that lead to more ethical conduct. The literature that operationalizes business ethics in different ways documents mixed results (Peifer, 2015). For example, Conroy et al. (2004) find that the ethical attitudes of surveyed students are affected by religiosity in the US, while Brammer et al. (2007) show that religious individuals do not prioritize the responsibilities of their firm different from non-religious individuals. Hooy and Ali (2016) find that Shariah firms and non-Shariah firms are the indifferent in performance. However, firms with a Muslim CEO have significantly lower performance. In this article, we further expand the analysis by focusing on the relationship between religion and the under-researched area of informal finance.

Informal finance plays an important role in countries with under-developed financial institutions, complementing the formal financial system to fund firm operations and promote economic growth (Ayyagari et al., 2010). Trade credit, one informal finance instrument, is an unsecured short-term loan from suppliers to a firm, and it serves as a critical source for corporate financing in cases where it is challenging to obtain bank loans and other formal credit instruments (Lin and Chou, 2015). For instance, due to a generally lacking formal financial system in China, Ge and Qiu (2007) document that the average ratio of accounts payable to sales is 46.9% for private firms (non-state-owned enterprises). A critical element of informal finance is the contract enforcement between creditors and debtors, which relies on informal local institutions, including relationships and the reputations of the parties involved. Informal finance has certain comparative advantages over a formal financial system in terms of credit evaluation, monitoring efficiency, and enforcing repayment (Ayyagari et al., 2010). Given the importance of religiosity in shaping informal institutions and influencing the economic attitudes and activities of individuals, groups,

and societies (Iannaccone, 1998; Peifer, 2015), its impact on informal finance is still under-studied. This paper intends to fill the gap in the context of Chinese private firms whose rapid economic growth largely relies on both informal finance and informal institutions (Allen et al., 2005).

Specifically, we use trade credit to gauge the level of informal finance among these private firms, and examine the role of religiosity as an alternative evaluation, monitoring, and enforcement mechanism (hereafter alternative mechanism) on the level of trade credit. When trade credit takes place, suppliers deliver goods or services to customers; the customers do not pay immediately, but promise to pay later. The suppliers assume the risk that the customers may default in the future. Hence, suppliers conduct credit evaluations before extending trade credit. After trade credit extension, suppliers then focus on monitoring and enforcement of repayment. Few studies go beyond the creditworthiness of a firm when examining the role of informal institutions on trade credit.

Drawing from studies that examine the impact of religiosity on corporate financial behavior, we contend that the extent of religiosity in the area which a firm located is positively related to the trade credit it receives. We predict that firms located in a high religiosity region are given more trade credit. Our argument echoes recent studies on the impact of religiosity on various corporate financial policies. As Du (2013) suggests, religion affects how individuals think and behave. Religiosity contributes significantly to the shaping of culture and individual behavior, which make up the informal institution in a society. Among the many elements of informal institutions, two important behaviors are the underlying good intention of borrowers to repay debts, and lenders' willingness to extend loans. In general, religiosity teaches positive thinking and good behavior. Thus, *ceteris paribus*, religiosity makes borrowers more willing to repay lenders and

lenders more willing to grant informal credit. Religiosity promotes a lender/borrower good faith atmosphere to facilitate informal finance.

We study the relation between religiosity (Buddhism, Taoism, Christianity, and Islam) and trade credit in China using all public non-state-owned listed firms during 2003-2013. The Chinese data are interesting for several reasons. First, as an emerging market, China has many capital market impediments, so a large portion of non-state-owned Chinese firms find it difficult to obtain formal financing. According to the World Business Environment Survey in 1999-2000, 80% of non-state-owned Chinese firms reported that formal corporate financing, such as bank loans, was a major obstacle in doing business in China. The reliance on informal finance such as trade credit, among Chinese non-state-owned firms is therefore unavoidable and perhaps critical. China provides a good natural setting to examine the role that informal institutions, such as religiosity, play on the extent of trade credit.

Second, as a culturally and ethnically diverse society, China has three of the major religions in the world (Buddhism, Christianity, and Islam) in addition to the Chinese religion of Taoism. We are able to conduct a comprehensive analysis on the impact of different religions on trade credit. We have no *a priori* reason to suggest that all four different religions have the same magnitude of impact on trade credit. To be able to examine four different religiosities at the same time is a major improvement over the religiosity and corporate behavior literature, which typically examines one or two religions.

We find that, consistent with our hypothesis, firms located in high religiosity regions have more trade credit than firms located in low religiosity regions, supporting the notion that religiosity, in general, helps a firm to obtain a favorable credit character evaluation in the trade credit process. That is, religiosity plays the role of an effective alternative mechanism in credit evaluation,

monitoring, and enforcement of repayment during the process of informal finance. However, among the four different religions, the impact is confined to Buddhism, Christianity, and Taoism. Thus, not all religions are the same, which echoes the findings in Jiang et al. (2015). Our findings are robust to alternative measures of religiosity impact and trade credit. In addition, trade credit in high religiosity regions has a smaller default rate in accounts payable than in low religiosity regions, corroborating our argument that religiosity plays the role of an alternative mechanism in contract enforcement, and enhances a borrower's credit character. Furthermore, our additional results suggest that the positive relation between religiosity and trade credit is less pronounced when a firm is located in a region with a strong formal legal institution and in regions (or in times) in which it is less challenging to obtain bank loans. Therefore, our results suggest that religiosity, as an informal institution, can only partially be a substitute for formal legal institution. High religiosity can boost the credit character of the borrower in the trade credit evaluation process. Overall, our results suggest that religion plays the role of an alternative mechanism to assist parties making informal finance decisions.

We make three contributions to the literature. First, we provide the first study on the role of religiosity in informal finance and extend the limited business ethics literature on trade credit. As the first business ethics empirical study on trade credit, our results enrich the understanding of determinants of trade credit decisions. Essentially, we complement Wu et al. (2014) and Cowton and San-Jose (2016) by showing that trade credit indeed depends on informal institutions as well as financial factors. Further research on trade credit needs to consider informal institutions. Second, our results extend the findings around religion and corporate financial behaviors in Du (2013, 2014). In addition to the moral and ethical impact of religiosity on corporate behaviors, we present evidence showing religiosity can serve as an alternative mechanism in facilitating the

informal finance process to enhance firm financing and economic activities. Third, we provide strong and robust evidence that there is a substitution effect between religiosity (one of informal institutions and important social norms) and formal legal institution. High religiosity can help a borrower to build up its credit character in the context of trade credit. Fourth, we do not find any impact of Islam on trade credit, suggesting that the role of religiosity in the informal financing process is not universal; instead, it is religion-specific. Overall, the finding suggests that religion is an important alternative mechanism to shape credit environment and facilitate firms in emerging markets access to informal finance. Freedom of religious worship policies could help to enhance business ethics in China. Firms may take clients' religious environment into consideration when managing credit and account receivable.

LITERATURE REVIEW AND TESTABLE HYPOTHESES

Informal finance, trade credit, and institutions

Financial and legal systems play important roles in economic development (Beck and Levine, 2002; La Porta et al., 1998; Levine and Zervos, 1998; Levine, 1999). For the last 30 years, while China has had capital impediments and a weak legal institution, it has enjoyed rapid economic growth. According to recent World Bank statistics, the annual GDP growth rates in China were 9.5%, 7.8%, 7.7%, and 7.3% in 2011, 2012, 2013, and 2014, respectively. Unlike other emerging economies, China is a counter example in the literature on law, institutions, finance, and growth (Allen et al., 2005). It is noted that China's private sector is under severe financial constraints due to an inadequate formal financial system (Brandt and Li, 2003; Cull and Xu, 2003, 2005). Nonetheless, the private sector has had faster growth than the public sector (Allen et al., 2005). Allen et al. (2005) attribute the success of the Chinese private sector and its economy to the

informal institution and financial system. Hasan et al. (2009) further suggest that Chinese private firms rely heavily on informal financial channels and self-financing.

As an informal finance instrument, trade credit can ease the adverse impact of credit crunch and credit market friction (Bond, 2004). Petersen and Rajan (1997) suggest that when a firm is under financial constraints, it relies on trade credit as an important source of financing. Fisman and Love (2003) examine trade credit in different countries and document that the growth of trade credit is much faster among developing countries with poor formal financial systems. Ge and Qiu (2007) contend that trade credit is critically important to private firms in countries without a sound formal financial system. They suggest that implicit contractual relations between a firm and its stakeholders are especially important in such a scenario. Firms can continue to grow through informal finance. Ayyagari et al. (2010) study 2,400 Chinese firms in 18 cities during 2000-2003 and report that a large percentage of their sample firms heavily rely on informal finance rather than formal bank financing. Overall, this cluster of the literature suggests that trade credit is a partial substitute for formal credit in developing countries.

Religion and corporate behavior

Several studies suggest that religion and corporate financial behavior are related, though they focus primarily on obvious social and ethical issues. Iannaccone (1988) explains that early studies commonly consider religion as a category of behavior largely immune to the rational calculus in a long time. But since the 1970s, economists and sociologists have returned to Adam Smith's insights (1965, pp.740) that religiosity also follows economics principles. For instance, Azzi and Ehrenberg (1975) suggest that religious people consider afterlife consumption into their utility function. Every religion has some discussions about the afterlife. Thus, any bad behavior in

the current life is costly to afterlife. Therefore, besides legal restraints, people with religious beliefs also incur religious restraints in making decisions (Conroy et al., 2004). Specifically, Smith (1776, p. 740) states:

Self-interest motivates clergy just as it does secular producers; that market forces constrain churches just as they constrain secular firms; and that the benefits of competition, the burdens of monopoly, and the hazards of government regulation are as real for religion as for any other sector of the economy.

A number of studies document the influence of religious beliefs on firm policy and outcome. Riahi-Belkaoui (2004) reports that earnings opacity is negatively correlated with the degree of law enforcement and church attendance in a 24-country study. El Ghouli et al. (2012), using a sample of US firms, find that firms located in high religiosity counties incur below-average equity financing costs. These studies imply that religion matters in corporate behavior. McGuire et al. (2012) show that firms in high religiosity areas incur fewer financial reinstatements and less misrepresentation of financial statements. Djan and Mersland (2017) find that, compared with secular MFIs, Christian microfinance institutions have stricter governance mechanisms, as reflected by more board meetings, more international directors, and more recognized external auditors.

With respect to Eastern religiosity, Du (2013) reports that Chinese firms located in high religiosity regions of Buddhism and Taoism regions displays less severe owner-manager agency costs than firms in other regions. Du (2014) finds that firms in high Buddhism regions incur less tunneling. Overall, the literature reports that religiosity is influential and can make firms behave morally and ethically. Taking all the related literature together, we conclude that informal finance, such as trade credits, plays a vital role in helping corporate financing.

Testable hypotheses

Trade credit suppliers need to evaluate credit risk, monitoring, and enforcement of repayment before extending trade credit to a debtor. Besides a formal credit evaluation, we contend that trade credit suppliers have to factor in the informal institution environment in making a trade credit decision.

In the context of religiosity and trade credit, we argue that there are three relevant perspectives. First, we contend that the propensity of not honoring a contract by a debtor is less likely in a high religiosity region. Religious doctrines generally teach followers to behave morally and ethically. Hence, *ceteris paribus*, a firm is more likely to repay trade credit to avoid feelings caused by not paying. Under the influence of religiosity, the followers will do “the right thing” when their firms have outstanding trade credit. The non-pecuniary cost (e.g., feeling guilty and immoral) of not repaying trade credit is high. Religiosity is a hidden guarantee to a creditor. Thus, trade credit default is lower and suppliers are more willing to extend trade credit in a high religiosity region. Second, firms located in high religiosity regions have generally fewer risky practices due to the risk-averse nature of religious followers. Therefore, *ceteris paribus*, suppliers are willing to extend trade credit to these low-risk firms. Third, firms located in high religiosity areas are able to attract business partners that share similar religiosity backgrounds and ideology. The bonding among these firms is better due to religiosity. The business-religiosity network further reinforces their informal relationship, which enhances trading credit financing (El Ghouli et al., 2012). Hence, suppliers with high religiosity are willing to extend more trade credit to customers. We hereby propose H1 as follows:

H1: *Religiosity has a positive impact on trade credit*

Regarding the impact of informal institutions on behavior, the literature generally suggests that such impact is higher in an environment with weak formal institution (Allen et al., 2005). Specifically, Grullon et al. (2010) report that religiosity plays a more important role in firms with weak corporate governance than those with strong corporate governance, suggesting that religiosity and formal institution are partial substitutes.

Trade credit is an informal contract. Formal and informal institutions both play a role in the trade credit process. Guiso et al. (2004) report that trade credit is determined by both the formal and informal institutions (e.g. law and culture) between suppliers and firms. McGuire et al. (2011) find that, in a weak legal investor protection environment, religiosity is able to reduce aggressive financial reporting. El Ghouli et al. (2012) document that before Sarbanes-Oxley Act, financing costs were lower among US firms in high religiosity regions than in low religiosity regions. These studies suggest that religiosity can be a partial substitute for formal institution and, most importantly, can mitigate the adverse impact of capital market impediments (e.g., due to poor investor protection and formal monitoring) so that it facilitates trade credit. Essentially, a religion's doctrines of behaving ethically, morally, and conservatively offer an implicit guarantee. These doctrines foster a good faith environment so that lenders are willing to grant, and borrowers have tendencies to repay, their trade credit. Hence, when a firm is located in a weak formal institution region, the impact of religiosity is stronger than if it is located in a strong formal institution region. Our second testable hypothesis is:

H2: *The impact of religiosity on trade credit is less pronounced in regions with strong formal institutions.*

Among the literature related to the Chinese environment, Demircug-Kunt and Maksimovic (2001) and Lin and Chou (2015) document specifically that bank loans and informal finance are

substitutes for each other. A majority of small private Chinese firms use informal finance to operate (Allen et al., 2005). If a firm can obtain financing from banks, it naturally has less demand for trade credit (Wu et al., 2014). As a result, firms rely less on religiosity as an implicit guarantee to access trade credit. If our core hypothesis of religiosity and trade credit is valid, we would expect that, *ceteris paribus*, the relation should be less pronounced among firms in regions where large bank loans are available. A firm located in such regions would not rely much on trade credit. Our third testable hypothesis is:

H3: *The impact of religiosity is less pronounced for firms located in regions where large bank loans are available.*

RESEARCH DESIGN

Data and key variable definitions

Our sample consists of all publicly listed non-state-owned firms in China from 2003 to 2013. Non-state-owned firms are listed firms where the government (central and local) and its associated ministries and business units are not the dominant or controlling shareholder. Instead, a private individual/family or foreign firm is the largest shareholder. After excluding financial firms and any firm-year observations with missing data, our final sample is reduced to 7,119 firm-year observations of 1,401 unique firms. The financial data are obtained from the China Stock Market and Accounting Research (CSMAR) database. We winsorize the financial variables at the 1% level.

Following Hilary and Hui (2009), we measure a firm's religiosity (*RELIGION*) as the number of religious shrines within a 200-kilometer radius around a listed firm's registered address. We identify national religious shrines following two lists: (1) The list issued by the State Council in 1983; and (2) the list issued by the Ethnic and Religious Affairs Bureau in 2010. We merge the

two lists and eliminate duplicates. We find records of 303 Buddhist monasteries, 80 Taoist temples, 180 churches, and 223 mosques. A map of the locations of national key religion shrines in China is shown in Figure 1.

[Insert Figure 1 about here]

Methods

To test the hypotheses, we use the panel data to estimate the pooled ordinary least squares (POLS) regression:

$$AP_{i,t} = \alpha_0 + \alpha_1 RELIGION_{i,t} + \alpha_j CONTROL_{i,t} + \varepsilon_{i,t} \quad (1)$$

Where AP is a firm's trade credit divided by total assets. Trade credit includes total account payables, account payables due within one year, and account payables due over one year. $RELIGION$ is a firm's religious characteristic, and $CONTROL$ is a vector of the firm-level characteristics as defined in Appendix 1. We the cluster standard errors by year and firm, and apply year and industry fixed effects. We also perform a number of robustness checks in addition to the baseline results.

Summary statistics

The descriptive statistics and some univariate analyses are presented in Table 1. The mean accounts payable to total assets ratio (AP) is 8.3%, and 7.6% of which is due within one year and 0.6% are overdue (long than one year). $AP \leq 1$ year ($AP > 1$ year) denotes the ratio of accounts payable of within (more than) one year to total assets. AP_DUE denotes the ratio of accounts payable of more than one year to total accounts payable (Wu et al., 2014). In Appendix 2, we shows that firms with above mean/median $RELIGION$ measures consistently have higher trade credit amounts than firms with below mean/median $RELIGION$ measures.

[Insert Table 1 about here]

EMPIRICAL RESULTS

Baseline results

We present the baseline results of trade credit and religion in Table 2. Across Models (1) to (3), the coefficients of the *RELIGION* variables are significantly positive at the 1% or 5% level, supporting H1 on the positive impact of religiosity on trade credit.

We incorporate social trust that may influence trade credit (Wu et al., 2014) as well as a number of additional control variables that capture provincial economic development. The expanded results are presented in the 3.1. Among all five models, the coefficients of the *RELIGION* variable are significantly positive, confirming the positive impact of *RELIGION* on trade credit after taking social trust into account. For the *TRUST* variable, it is not significant in Model (1) but becomes positive and significant in Model (5), suggesting that religion is a more stable factor than social trust in the determination of trade credit. Among the different economic development variables, only *TRA* is positive and significant. In Model (6) we apply province fixed effects to control for unobservable regional traits that may determine the level of trade credit financing. The results remain consistent.

[Insert Table 2 about here]

Different Religions

We leverage the unique Chinese environment to examine the impact of different religions on trade credit. It is natural that different religions have different characteristics. Weber (1905) summarizes two major differences. First, Christianity and Islam have had religious reforms over the years, while Buddhism and Taoism have not experienced any religious reform. Second, Christianity and Islam are exclusivist religions, while Buddhism and Taoism practice inclusivity.

To account for different religions, we decompose the *RELIGION* variable into four different variables depending on the number of specific religious sites. The results are presented

in Panel A of Table 3. The coefficients of the *RELIGION* variable in Models (1) to (4) use Buddhism, Taoism, Christianity, and Islam, respectively¹. Among the four models, we only find positive and significant coefficients for Buddhism, Taoism, and Christianity in Models (1) to (3). In Model (4), the coefficient of Islam is not significant. The results suggest that not all religions are the same in the context of trade credit financing.

There are a number of possible reasons for the insignificant impact of Islam. First, Islamic financing and banking services might be available for firms located close to Islamic shrines, making these firms rely less on trade credit as an important alternative financing channel to alleviate financial constraints. Because of the Qur'an's prohibition of interest (*riba*), the Islamic financial model works on the basis of risk sharing. Typical instruments include partnership (*Musharaka*), profit-sharing (*Mudaraba*), cost-plus financing (*Murabaha*), leasing (*Ijara*), and forward sale (*Bay'salam*). The Islamic Financial Services Industry Stability Report, published by the Islamic Financial Services Board, shows that global Islamic banking reached an overall value of USD 1,496 billion by the end of 2015. There is evidence that Islamic finance remains underdeveloped in China. *Business Week* (Chinese version, 2013) reported that Ningxia Bank launched a pilot program of Islamic bank business in 2009, but total Sharia-compliant savings only amounted to 50 million RMB in 2011. Islamic banking service is therefore unlikely to be a viable financing channel for Chinese listed firms.

The second reason is that our measure of religiosity is less applicable to Islam. Unlike Taoist and Buddhist temples and churches, many mosques in China are not open to non-Muslim visitors. Public engagement and widening participation in religious events can create more interaction opportunities for local communities. The restriction on non-Muslim visitors means that geographic

¹ The database does not allow us to further classify Christianity into Protestant or Catholic.

proximity to mosques is a less viable indicator of religiosity. Since data on the entry restrictions of different mosques are not available, we are not able to directly test possible reasons.

Finally, the religious exclusivism of Islam on the one hand increases the spiritual bonding and business ethics among adherents, but may also hinder the business between adherents and non-adherents. This implies that a rich diversity of different types of religions may limit the benefits of religiosity. To perform the analysis, we use the Herfindahl-Hirschman index (HHI) to measure religiosity diversity. It is calculated by squaring the share of each type of religious shrine in the region, and then summing the resulting numbers as follows:

$$RELIGIONDIV = 1 - \sum_{i=1}^N (R_i/R)^2 \quad (2)$$

where N is the categories of religion around a firm and R is the sum of religious sites around a firm of all religions. R_i is the sum of religious sites of i^{th} religion. In Table 3, we regress the diversity measure on trade credits. The positive impact on trade credit is not observed from the diversity between Western religions (Christianity and Islam) or from the diversity between Islam and other religions. The results support our conjecture. Furthermore, it is noteworthy that the results are different for the diversity of the four religions (Buddhism, Taoism, Christianity, and Islam) and the diversity of Eastern religions (Buddhism and Taoism). Their coefficients are significantly positive at the 1% level, suggesting the influence of multiple moral authorities to beget a more ethical climate in business.

[Insert Table 3 about here]

Moderating effect of formal institution and bank financing

To account for the moderating effect of formal institution, we use four different indices to capture the level of formal institution in China. They are: (1) property right protection index; (2) number of lawyers over total population in the province; (3) preferential policy of a province; and (4) whether the firm is located in a treaty port. These dummy variables carry a value of one if the

property right protection index and the number of lawyers per total population are above their respective medians; they also take a value of one if the preferential policy of the province is below its median and the firm is in a treaty port (detailed definitions are in Appendix 1). The regression results are presented in Table 4. The coefficients for the interaction variable *RELIGION*FINSITU* are negative and significant at the 1% or 5% level across Models (1) to (4), indicating that the level of formal institution attenuates the positive association between religion and a firm's trade credit. The findings support *H2*.

To account for the challenge of bank financing, we use bank loan, financial development, financial competition, and monetary policy to represent the challenge of obtaining formal bank financing. These dummy variables carry a value of one if it is less difficult to for a firm to obtain bank financing. The findings are presented in Table 5. Across all four models, the coefficients associated with the interaction variable *RELIGION*BFINANCING* are negative and significant, suggesting that when a firm is located in a region with good access to bank financing or during times of easy bank financing, the relation between religion and trade credit weakens. The results support *H3*.

[Insert Table 4 and 5 about here]

Robustness check

Since the national key religious shrines are historical legacy, the location of the religious shrines are not possibly to be determined by modern finance. Reverse causality is not a concern for the setting. We also applied the province fixed effects to control for unobservable regional traits that may determine the level of trade credit financing.

To mitigate the concern of measurement error in religiosity, we use alternative specifications for robustness checks. For *RELIGION*, we alter the radius to 100, 220, 250, and 300 kilometers and then replace it by the estimated driving distance and driving time from

lbsyun.baidu.com. The results are presented in Appendix 3.2-3.3 are consistent. We also use the number of registered religious groups (GroupNum) in the firm's headquartered county as an additional measure for the religiosity. Firm fixed effects is applied to control for time-invariant unobservable firm characteristics. The results remain consistent. We also examine alternative accounts payable, measured by the natural logarithm of accounts payable (*LNAP*) and by the ratio of accounts payable to total liability (*AP/TL*). The results remain consistent and further support our main findings.

In addition, we replicate our results based on a sub-sample of firms that experienced relocation, which may be associated with a change in religiosity. The relocated firms have same or similar firm characteristics before and after the relocation, except the exposure to the religious environment, providing an ideal setting to control for the firm-level missing variable and unobserved heterogeneity. The results are consistent. Finally, we also show that city-level results complement the firm-level findings in Appendix 3.4. There is a large variation in the number of religious shrines in different provinces, and firms located in cities with more religious shrines tend to enjoy a higher average level of trade credit. This result articulates the explicit role of regional element.

Religion and trade credit overdue

Cowton and San-Jose (2016) argue that the tolerance of late payment of trade credit depends on culture. Table 3 only shows the relation between religiosity and aggregated trade credit. In accounting sense, the due of accounts payable can be less than one year or over one year. Hence, we examine how religiosity relates to different trade credit maturities. Both *AP > 1* year and *AP_DUE* capture a situation in which a firm does not pay its accounts payable on time. The results are presented in the 3.8. The coefficient of the *RELIGION* variable in the *AP ≤ 1* year model

continues to be positive and significant at 1%. In contrast, the coefficients of the *RELIGION* variable in both *AP>1-year* and *AP_DUE* models are negative and significant. Therefore, religiosity is positively correlated with short-term trade credit and is also negatively correlated with overdue trade credit.

DISCUSSION AND CONCLUSION

Despite the commercial importance of trade credit, it has not been empirically studied in the business ethics literature or featured as an element of the business ethics research agenda (Cowton and San-Jose, 2016). We extend the limited research by exploring how religion, an important element of informal institutions, shapes the size and prompt payment of trade credit of Chinese listed non-state firms. China provides a unique setting in that private firms mainly rely on informal finance channels and institutions (Allen et al., 2005) and that China exhibits a diversity of major religions. We use the number of religious sites within 200, 220, 250, and 300 kilometers of listed firms to proxy religiosity and find it positively related to the amount and prompt payment of trade credit. We interpret the results as evidence that the geographic proximity of religious atmosphere enhances the enforcement of contracts through increasing non-pecuniary costs. The results also imply that firms located in high religiosity regions are able to establish business networks with other partners which share similar religiosity ideologies. We also find that the positive impact of religiosity on trade credit is concentrated in regions with weak formal institutions or limited bank loan availability. The results suggest that religion complements legal institutions to enhance enforcement, and in turn protects creditor rights. Finally, we provide evidence that differences among religions lead to different levels of investor protection. This confirms Stulz and Williamson's (2003) findings that culture proxies are helpful in understanding the difference in the enforcement of investor rights.

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Figure 1. A map of the locations of national key religious shrines in China

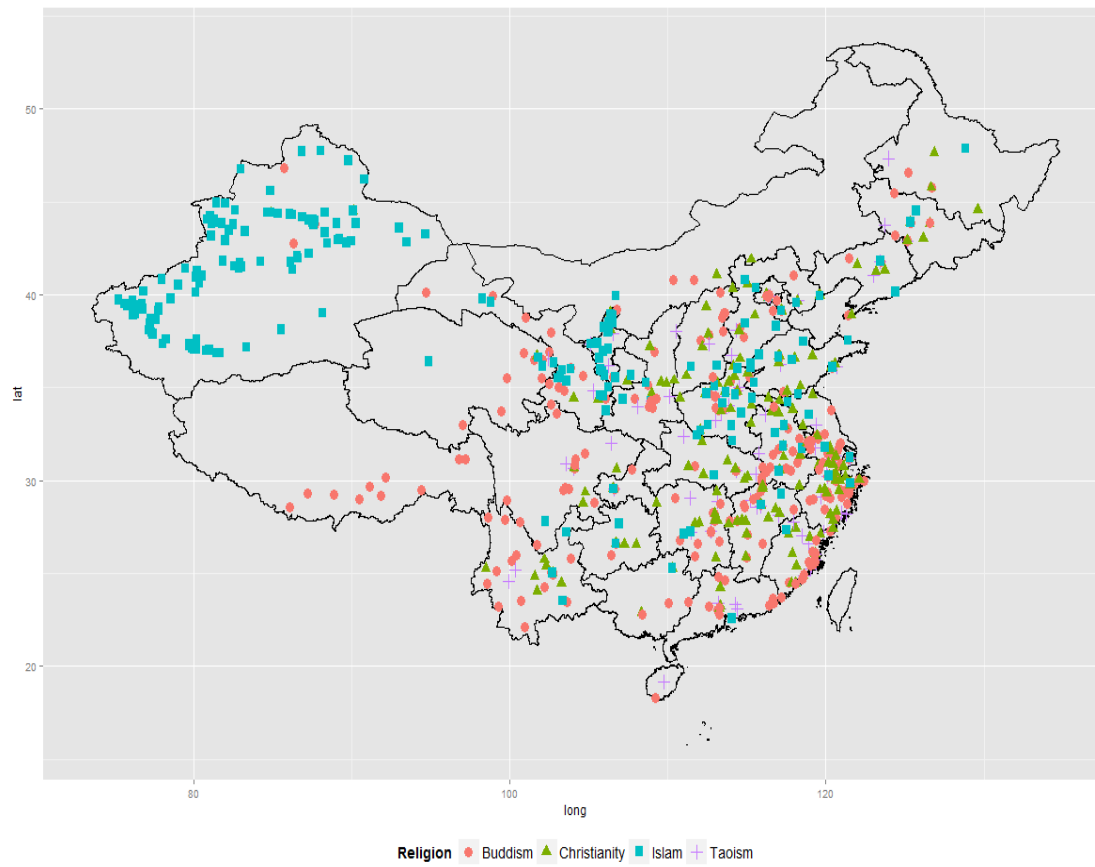


Table 1. Descriptive statistics

This table presents the descriptive statistics of variables used in the main analyses. *AP* denotes Accounts payable. *AP_due* denotes the percentage ratio of accounts payables of more than 1 year to total accounts payables. *RELIGION* denotes the number of national key religion place within a radius of 200 km around a listed firm's registered address. Other variables are defined in Appendix 1.

Variable	Mean	p25	p50	p75	std. dev.
<i>AP</i>	0.083	0.036	0.066	0.112	0.066
<i>AP(≤1 year)</i>	0.076	0.031	0.060	0.104	0.063
<i>AP(>1 year)</i>	0.006	0.000	0.000	0.004	0.016
<i>AP_DUE</i>	0.087	0.000	0.000	0.081	0.190
<i>RELIGION</i>	0.317	0.140	0.250	0.550	0.232
<i>BLOAN</i>	0.180	0.031	0.155	0.281	0.165
<i>GROWTH</i>	0.244	-0.025	0.140	0.328	0.672
<i>CASH</i>	0.206	0.090	0.163	0.281	0.160
<i>LISTAGE</i>	1.821	1.099	1.946	2.485	0.769
<i>TQ</i>	2.604	1.399	1.977	3.005	1.964
<i>INVENTORY</i>	0.170	0.072	0.130	0.215	0.154
<i>SIZE</i>	21.176	20.529	21.091	21.782	1.039
<i>ROA</i>	0.040	0.014	0.041	0.074	0.079
<i>TOP1</i>	32.260	22.050	29.430	41.100	13.972
<i>OUTRAT</i>	0.202	0.176	0.200	0.231	0.044
<i>MSDUM</i>	0.464	0.000	0.000	1.000	0.499

Table 2. Religion and trade credit

This table presents estimation results for the effect of religion on accounts payable. The variables are defined in Appendix 1. All variables but the dummy variables are winsorized at the 1% and 99% levels. The numbers reported in parentheses are t-statistics based on heteroskedasticity-corrected errors clustered by firm and year. ***, **, and * indicate significance at the 1%, 5%, and 10% levels respectively (two-sided).

VARIABLES	(1) <i>AP</i>	(2) <i>AP</i>	(3) <i>AP</i>
<i>RELIGION</i>	0.015** (2.14)	0.018*** (2.60)	0.018*** (2.61)
<i>BLOAN</i>		-0.020 (-1.18)	-0.020 (-1.17)
<i>SGROWTH</i>		0.006*** (3.88)	0.006*** (3.96)
<i>CASH</i>		-0.083*** (-7.29)	-0.083*** (-7.39)
<i>LISTAGE</i>		-0.002 (-1.17)	-0.002 (-0.82)
<i>TQ</i>		0.003*** (2.83)	0.003*** (2.84)
<i>INVENTORY</i>		0.025** (2.19)	0.025** (2.20)
<i>SIZE</i>		0.006*** (2.90)	0.006*** (2.75)
<i>ROA</i>		-0.072*** (-3.99)	-0.072*** (-4.06)
<i>TOP1</i>			0.000 (0.25)
<i>OUTRAT</i>			-0.040* (-1.69)
<i>MSDUM</i>			0.002 (0.73)
Constant	0.045*** (5.74)	-0.081* (-1.87)	-0.070 (-1.59)
Industry	Y	Y	Y
Year	Y	Y	Y
Observations	7,119	7,119	7,119
R-squared	0.151	0.204	0.205

Table 3. The impact of different religions and religiosity diversity

This table presents the impact of different religions and religiosity diversity. Panel A shows results for the effect of different religions on accounts payable, and Panel B shows the impact of religiosity diversity. Other variables are defined in Appendix 1. ***, **, and * indicate significance at the 1%, 5%, and 10% levels. The same set of control variables are incorporated as in Table 2.

Panel A: The impact of different religion on accounts payable

VARIABLES	(1) <i>AP</i>	(2) <i>AP</i>	(3) <i>AP</i>	(4) <i>AP</i>
<i>RELIGION_BUDDHISM</i>	0.023** (2.04)			
<i>RELIGION_TAOISM</i>		0.305*** (4.58)		
<i>RELIGION_CHRISTIANITY</i>			0.071*** (3.05)	
<i>RELIGION_ISLAM</i>				0.009 (0.17)
Control	Y	Y	Y	Y
Industry	Y	Y	Y	Y
Year	Y	Y	Y	Y
Observations	7,119	7,119	7,119	7,119
R-squared	0.204	0.211	0.207	0.202

Panel B: The impact of religiosity diversity on accounts payable

VARIABLES	(1) Diversity among all religions	(2) Diversity between Eastern and Western religions	(3) Diversity between Eastern religions (Buddhism and Taoism)	(4) Diversity between Western religions (Christianity and Islam)	(5) Diversity between Islam and other religions
<i>RELIGIONDIV</i>	0.031*** (2.87)	0.029** (2.41)	0.034*** (3.49)	-0.003 (-0.31)	-0.005 (-0.42)
Control	Y	Y	Y	Y	Y
Observations	7,119	7,119	7,119	7,119	7,119
R-squared	0.206	0.204	0.207	0.202	0.202

Table 4. Formal institutions and the relations between religion and trade credit

This table presents results for the effect of law on the relation between religion and accounts payable. The variables are defined in Appendix 1. **, *, and * indicate significance at the 1%, 5%, and 10% levels. The same set of control variables are incorporated as in Table 2.

	Property right protection	Lawyer/total population	Preferential policy	Treaty port
	(1)	(2)	(4)	(5)
VARIABLES	<i>AP</i>	<i>AP</i>	<i>AP</i>	<i>AP</i>
<i>RELIGION</i>	0.048*** (2.91)	0.040*** (2.83)	0.055** (2.44)	0.066** (2.54)
<i>RELIGION*FINSTITU</i>	-0.043** (-2.23)	-0.034* (-1.75)	-0.027* (-1.68)	-0.054** (-2.00)
<i>FINSTITU</i>	0.014** (1.97)	0.011 (1.39)	0.008 (1.63)	0.017** (2.57)
Control	Y	Y	Y	Y
Industry	Y	Y	Y	Y
Year	Y	Y	Y	Y
Observations	7,119	7,119	7,119	7,119
R-squared	0.208	0.207	0.206	0.208

Table 5. Bank financing and the relations between religion and trade credit

This table presents results for the effect of bank financing on the relation between religion and accounts payable. The variables are defined in Appendix 1. ***, **, and * indicate significance at the 1%, 5%, and 10% levels. The same set of control variables are incorporated as in Table 2.

	Bank loan	Financial development	Financial competition	Monetary policy
	(1)	(2)	(3)	(4)
VARIABLES	AP	AP	AP	AP
<i>RELIGION</i>	0.036*** (3.10)	0.076** (2.40)	0.074*** (2.88)	0.019*** (2.73)
<i>RELIGION*BFINANCING</i>	-0.100** (-2.14)	-0.006** (-2.18)	-0.006** (-2.35)	-0.029*** (-3.65)
<i>BFINANCING</i>	0.008 (0.31)	0.003*** (2.60)	0.002* (1.87)	-0.008 (-1.34)
Control	Y	Y	Y	Y
Industry	Y	Y	Y	Y
Year	Y	Y	Y	Y
Observations	7,119	7,119	7,119	7,115
R-squared	0.208	0.209	0.208	0.211

Appendix A: Variable definitions

Variable	Definition
Variable for main tests	
<i>AP</i>	Accounts payable, The percentage ratio of accounts payables to total assets (Choi and Kim, 2005; Vicente and Cunat, 2007).
<i>AP(≤1 year)</i>	The percentage ratio of accounts payables of within 1 year to total assets (Wu et al., 2014)
<i>AP(>1 year)</i>	The percentage ratio of accounts payables of more than 1 year to total assets. (Wu et al., 2014)
<i>AP_DUE</i>	The percentage ratio of accounts payables of more than 1 year to total accounts payables. (Wu et al., 2014)
<i>RELIGION</i>	The number of national key religion place within a radius of 200 km around a listed firm's registered address.
<i>BLOAN</i>	The ratio of the sum of short-term and long-term loans to total assets
<i>GROWTH</i>	The sales growth rate, which is calculated as the ratio of difference between sales in the current year and sales in the prior year to the sales in the current year
<i>CASH</i>	The ratio of cash and cash equivalents to total assets
<i>LISTAGE</i>	The number of years since a firm's IPO
<i>TQ</i>	Market value of the firm divided by total assets at the end of the year (Clarkson et al., 2008)
<i>INVENTORY</i>	inventory divided by total assets
<i>SIZE</i>	Firm size, calculated as the natural log of total assets
<i>ROA</i>	Return on total assets, Net profit to total assets
<i>TOP1</i>	The percentage of common shares owned by controlling shareholder
<i>OUTRAT</i>	The ratio of the number of independent directors to the number of directors in the board of directors
<i>MSDUM</i>	Dummy variable for management shareholding; value of 1 if management owned shares, zero otherwise (Meng et al. 2012; Pujari et al. 2004; Sharma 2000)
Variables for further tests and robustness checks	
<i>TRUST</i>	A provincial level index, from a survey conducted by the "Chinese Enterprise Survey System" in 2001 that measures the trustworthiness of enterprises in China, where a higher index value suggests a more trustworthy enterprise business community in the province. We use the natural logarithm of the value as a proxy for social trust.
<i>GDPG</i>	GDP per capita growth rate of the province
<i>EDU</i>	percent of population finished high school or above education
<i>TRA</i>	Natural logarithm of the sum of the railway mileage and highway mileage

<i>RELIGION_100KM</i>	The number of national key religion place within a radius of 100 km around a listed firm's registered address
<i>RELIGION_220KM</i>	The number of national key religion place within a radius of 220 km around a listed firm's registered address
<i>RELIGION_250KM</i>	The number of national key religion place within a radius of 250 km around a listed firm's registered address
<i>RELIGION_300KM</i>	the number of national key religion place within a radius of 300 km around a listed firm's registered address
<i>RELIGION_BUDDHISM</i>	The number of national key Buddhist monasteries within a radius of 200 km around a listed firm's registered address
<i>RELIGION_TAOISM</i>	The number of national key Taoist temples within a radius of 200 km around a listed firm's registered address
<i>RELIGION_CHRISTIANITY</i>	The number of national key Christ Church Cathedra within a radius of 200 km around a listed firm's registered address
<i>RELIGION_ISLAM</i>	The number of national key masjid within a radius of 200 km around a listed firm's registered address
<i>LNAP</i>	Natural logarithm of accounts payable.
<i>AP/TL</i>	Accounts payable over total liabilities (Vicente and Cunat, 2007)
<i>PROPERTY RIGHT PROTECTION</i>	This index is calculated based on the total economic value of legal cases settled, standardized by GDP of the region. This measure is based on the design in Johnson, McMillan, and Woodruff (2002) to capture the court system's ability to enforce contracts following Fan et al., 2011)
<i>LAWYER/TOTAL POPULATION</i>	Legal environment index from which measures the development of the intermediary agencies and legal enforcement following Fan et al. (2011)
<i>PREFERENTIAL POLICY</i>	The amount of preferential treatments granted to a region by the central government to set up special economic zones during the period 1978 to 1998. (see Demruger et al., 2002)
<i>TREATY PORT</i>	After the first Opium War in 1842, China was forced to sign several treaties with foreigners to open treaty ports or set up leased territories. The period between 1842-1943 (or alternatively, 1842-1949) is referred to by Fairbank and Goldman (1992) as the Treaty Century, which was characterized by China's increasing openness to foreign contact. These treaty ports are located in (1) Fujian, Guangdong, Shanghai, and Zhejiang (Treaty of Nanjing 1842), (2) Fujian, Hainan, Hubei, Guangdong, Jiangsu, Liaoning, and Shandong (Treaty of Tianjin 1858), (3) Tianjin and Xinjiang (Treaty of Beijing 1860), (4) Anhui, Hubei, Guangxi, and Zhejiang (Treaty of Yantai 1876), and (5) Chongqing, Hubei, and Zhejiang (Treaty of Maguan, 1895). The locations of the leased territories include Tianjin (1860), Shanghai (1845), Jiangsu (1863), Zhjiang (1896), Anhui (1877), Jiangxi (1861), Fujian (1861), Shandong (1889), Guangdong (1857), Chongqing (1901), and Hubei (1861). (see Fan et al., 2014))
<i>FINANCIAL DEVELOPMENT</i>	It is an index by combining the financial competition and credit distribution in a province. The data are from Fan et al. (2011)

<i>BANK LOAN</i>	The ratio of firm's long term and short term loan to total assets
<i>FINANCIAL COMPETITION</i>	It is an index showing the proportion of deposits in non-state-owned banks to total deposits in the banking sector. The data are from Fan et al. (2011).
<i>MONETARY POLICY</i>	Monetary regime dummy variable. It takes a value of 1 if <i>MP</i> is below its median. <i>MP</i> = the growth of money supply (M2) minus the GDP growth rate and consumer price index (CPI) growth rate. When <i>MP</i> is 1, it means that it is an expansionary monetary regime or it is a less challenging environment to borrow.
<i>Driving Distance</i>	The nearest driving distance from firm's registered address to the national key religion place by car; where $\leq 100\text{Km}/200\text{Km}/300\text{Km}$ is within 100Km/200Km/300Km of driving distance, respectively; The number of national key religion place within a radius of 220 km around a listed firm's registered address
<i>Driving Time</i>	The driving time of the nearest driving distance from firm's registered address to the national key religion place by car; where $\leq 1.5\text{h}/\leq 2\text{h}/\leq 3\text{h}$ is within 1.5/2/3 hours of driving time, respectively.
<i>Region Fixed Effect</i>	We divided China to east-area, middle-area and west-area according to the seventh five-year national economic and social development plan of People's Republic of China; it's not only can reflect the condition of economic and social development, but also can reflect the support and policy given by the central government.
<i>Industry Fixed Effect</i>	Two digit CRSR industry code for manufacturing, and one digit for others.

RELIGION: To construct *RELIGION*, we follow (Chen et al., 2013; Du 2013a, b) to count the number of religious sites within a certain radius according to following steps: (1) Using Google-earth map, we locate the registered address of every firm and obtain its longitude and latitude, respectively; (2) We check the geographic location of every religious site and recognize its longitude and latitude; (3) We calculate the distance between a firm and a religious site as the length of the minor arc across the earth's surface according to their longitudes and latitudes (Du 2013 a, b and Rising, 2000); (4) We use 200 kilometers as the distance criteria (the upper limits) to identify the number of religious sites and define *RELIGION*, respectively.

Appendix B.

Table B1. Religious shrines and trade credit by provinces

Province	All		Taoism		Buddhism		Christianity		Islam		AP		
	Num.	Rank.	Num.	Rank.	Num.	Rank.	Num.	Rank.	Num.	Rank.	Mean	Obs.	Rank
Xinjiang	122	1	0	26	3	24	2	23	117	1	7.60%	94	17
Zhejiang	65	2	7	2	36	1	20	1	2	11	9.35%	969	6
Henan	44	3	6	4	9	14	16	2	13	4	9.86%	150	2
Anhui	42	4	2	19	21	3	13	5	6	7	8.58%	166	9
Fujian	41	5	8	1	19	4	13	4	1	28	8.03%	317	15
Jiangsu	37	6	4	7	21	2	9	7	3	10	9.48%	769	4
Jiangxi	35	7	5	6	14	10	14	3	2	15	8.12%	57	14
Gansu	35	8	2	17	13	11	3	21	17	3	6.74%	69	25
Yunnan	31	9	2	14	17	5	8	8	4	8	7.22%	56	20
Hunan	30	10	4	8	16	8	8	9	2	17	8.20%	177	13
Shaanxi	29	11	6	3	16	7	5	12	2	12	8.00%	77	16
Sichuan	26	12	5	5	16	6	4	15	1	22	8.31%	352	10
Ningxia	25	13	3	11	2	29	3	18	17	2	9.45%	33	5
Shandong	24	14	2	15	3	26	11	6	8	5	8.29%	449	11
Shanxi	22	15	1	22	14	9	5	13	2	13	10.84%	46	1
Hebei	22	16	3	13	6	19	7	11	6	6	6.84%	117	24
Guangdong	21	17	4	10	11	12	5	14	1	27	9.03%	1111	7
Hubei	20	18	4	9	7	17	7	10	2	18	7.12%	301	21
Jilin	15	19	2	16	7	16	4	17	2	16	5.62%	137	28
Qinghai	13	20	1	23	7	15	1	29	4	9	9.80%	35	3
Liaohai	13	21	3	12	4	21	4	16	2	14	8.95%	234	8
Beijing	11	22	2	18	6	20	2	28	1	29	7.11%	321	22
Tibet	10	23	0	27	10	13	0	30	0	30	8.24%	63	12

Shanghai	10	24	1	21	6	18	2	25	1	23	7.28%	416	19
Guizhou	9	25	0	30	4	22	3	20	2	19	7.51%	43	18
Chongqing	7	26	1	20	3	23	2	22	1	20	4.73%	79	31
Heilongjiang	7	27	1	24	2	30	3	19	1	25	4.94%	104	30
Tianjin	6	28	0	28	3	25	2	24	1	21	6.87%	41	23
Neimeng	6	29	0	29	3	27	2	26	1	24	5.73%	82	27
Guangxi	6	30	0	31	3	28	2	27	1	26	6.59%	104	26
Hainan	2	31	1	25	1	31	0	31	0	31	5.32%	150	29
Total	786		80		303		180		223		8.26%	7119	

Table B2. Religiosity by industries

Classify of industry		
Industry	Mean of <i>RELIGION</i>	N
Agriculture, forestry, livestock farming, & fishery (A)	0.167	168
Mining (B)	0.185	45
Food & beverage (C0)	0.211	272
Textile, clothes, & fur (C1)	0.421	431
Timber & furniture (C2)	0.297	54
Paper making & printing (C3)	0.288	184
Petroleum, chemistry, rubber, & plastic (C4)	0.358	781
Electronic (C5)	0.344	398
Metal & non-metal (C6)	0.317	505
Machinery, equipment, & instrument (C7)	0.345	1421
Medicine & biological products (C8)	0.250	553
Other manufacturing (C9)	0.423	153
Electric power, gas & water production (D)	0.162	55
Construction (E)	0.361	122
Transport & storage (F)	0.253	74
Information technology (G)	0.344	744
Wholesale & retail trade (H)	0.299	344
Real estate (J)	0.272	186
Social service (K)	0.267	158
Communication & cultural industry (L)	0.362	64
Conglomerates (M)	0.231	407
Total	0.317	7119

Appendix C: Additional empirical results with tabulated control variables.

Table C1. Regressions for add more control variables

This table presents estimation results of Regressions for add more control variables. The variables are defined in Appendix 1. All variables but the dummy variables are winsorized at the 1% and 99% levels. The numbers reported in parentheses are t-statistics based on heteroskedasticity-corrected errors clustered by firm and year. ***, **, and * indicate significant differences at the 1%, 5% and 10% levels respectively (two-sided).

VARIABLES	(1) <i>AP</i>	(2) <i>AP</i>	(3) <i>AP</i>	(4) <i>AP</i>	(5) <i>AP</i>	(6) <i>AP</i>
<i>RELIGION</i>	0.014* (1.95)	0.018*** (2.69)	0.018*** (2.64)	0.024*** (3.55)	0.020*** (2.77)	0.019*** (2.67)
<i>TRUST1</i>	0.004 (1.38)				0.010*** (2.81)	0.006 (1.53)
<i>GDPG</i>		0.000 (0.49)			0.001 (1.05)	0.001 (1.45)
<i>EDU</i>			-0.000 (-0.04)		0.000 (0.29)	0.000 (0.43)
<i>TRA</i>				0.006*** (2.87)	0.008*** (3.77)	0.008*** (3.73)
<i>BLOAN</i>	-0.020 (-1.17)	-0.020 (-1.17)	-0.020 (-1.17)	-0.022 (-1.28)	-0.023 (-1.34)	-0.023 (-1.33)
<i>SGROWTH</i>	0.006*** (3.98)	0.006*** (3.94)	0.006*** (3.95)	0.006*** (4.09)	0.006*** (4.18)	0.006*** (4.16)
<i>CASH</i>	-0.084*** (-7.69)	-0.083*** (-7.41)	-0.083*** (-7.40)	-0.081*** (-7.34)	-0.084*** (-7.87)	-0.083*** (-7.60)
<i>LISTAGE</i>	-0.002 (-0.72)	-0.002 (-0.85)	-0.002 (-0.82)	-0.001 (-0.60)	-0.001 (-0.36)	-0.000 (-0.14)
<i>TQ</i>	0.003*** (2.83)	0.003*** (2.84)	0.003*** (2.85)	0.004*** (2.93)	0.003*** (2.93)	0.003*** (2.98)
<i>INVENTORY</i>	0.025** (2.24)	0.025** (2.20)	0.025** (2.20)	0.025** (2.20)	0.026** (2.31)	0.025** (2.24)
<i>SIZE</i>	0.006*** (2.65)	0.006*** (2.75)	0.006*** (2.75)	0.006*** (2.67)	0.005** (2.39)	0.005** (2.38)
<i>ROA</i>	-0.073*** (-4.05)	-0.072*** (-4.06)	-0.072*** (-4.05)	-0.072*** (-3.98)	-0.072*** (-3.99)	-0.072*** (-4.01)
<i>TOP1</i>	0.000 (0.24)	0.000 (0.25)	0.000 (0.25)	0.000 (0.15)	0.000 (0.08)	0.000 (0.08)
<i>OUTRAT</i>	-0.042* (-1.77)	-0.040* (-1.70)	-0.040* (-1.69)	-0.041* (-1.75)	-0.047** (-1.99)	-0.049** (-2.09)
<i>MSDUM</i>	0.002 (0.74)	0.002 (0.74)	0.002 (0.73)	0.002 (0.64)	0.002 (0.62)	0.002 (0.57)
Constant	-0.067 (-1.52)	-0.106 (-1.24)	-0.070 (-1.59)	-0.131*** (-2.66)	-0.221*** (-2.73)	-0.234*** (-2.96)
Region	N	N	N	N	N	Y
Industry	Y	Y	Y	Y	Y	Y
Year	Y	Y	Y	Y	Y	Y
Observations	7,119	7,119	7,119	7,104	7,104	7,104
R-squared	0.206	0.205	0.205	0.209	0.213	0.215

Table C2. Regressions using various measures for religion and trade credit

This table presents results using various measures for religion and accounts payable. The variables are defined in Appendix 1. All variables but the dummy variables are winsorized at the 1% and 99% levels. The numbers reported in parentheses are t-statistics based on heteroskedasticity-corrected errors clustered by firm and year. ***, **, and * indicate significant differences at the 1%, 5% and 10% levels respectively (two-sided).

VARIABLES	Alternative measures for religion			Alternative measures for Accounts Payables	
	(1) <i>AP</i>	(2) <i>AP</i>	(3) <i>AP</i>	(4) <i>LNAP</i>	(5) <i>AP/TL</i>
<i>RELIGION_220KM</i>	0.015** (2.51)				
<i>RELIGION_250KM</i>		0.012** (2.31)			
<i>RELIGION_300KM</i>			0.008** (1.98)		
<i>RELIGION</i>				0.366*** (3.86)	0.047*** (3.02)
<i>BLOAN</i>	-0.020 (-1.16)	-0.020 (-1.16)	-0.020 (-1.16)	-0.044 (-0.20)	-0.419*** (-8.58)
<i>SGROWTH</i>	0.006*** (3.95)	0.006*** (3.96)	0.006*** (3.94)	0.053*** (3.52)	-0.000 (-0.01)
<i>CASH</i>	-0.083*** (-7.37)	-0.082*** (-7.35)	-0.083*** (-7.38)	-1.456*** (-7.08)	0.017 (0.72)
<i>LISTAGE</i>	-0.002 (-0.83)	-0.002 (-0.83)	-0.002 (-0.85)	-0.076** (-2.38)	-0.035*** (-7.19)
<i>TQ</i>	0.003*** (2.83)	0.003*** (2.83)	0.003*** (2.81)	-0.003 (-0.24)	-0.005* (-1.85)
<i>INVENTORY</i>	0.025** (2.20)	0.025** (2.20)	0.025** (2.21)	0.523*** (3.34)	-0.017 (-0.91)
<i>SIZE</i>	0.006*** (2.77)	0.006*** (2.76)	0.006*** (2.77)	1.073*** (40.86)	-0.008 (-1.47)
<i>ROA</i>	-0.072*** (-4.04)	-0.072*** (-4.03)	-0.072*** (-4.00)	-0.636*** (-2.98)	-0.018 (-0.47)
<i>TOP1</i>	0.000 (0.24)	0.000 (0.26)	0.000 (0.29)	0.000 (0.33)	0.000 (1.37)
<i>OUTRAT</i>	-0.040* (-1.70)	-0.040* (-1.70)	-0.040* (-1.69)	-1.079*** (-2.90)	-0.045 (-0.82)
<i>MSDUM</i>	0.002 (0.73)	0.002 (0.73)	0.002 (0.75)	0.057 (1.34)	0.014** (2.34)
Constant	-0.071 (-1.60)	-0.070 (-1.60)	-0.071 (-1.60)	-4.555*** (-7.84)	0.433*** (3.39)
Industry	Y	Y	Y	Y	Y
Year	Y	Y	Y	Y	Y
Observations	7,119	7,119	7,119	7,082	7,118
R-squared	0.205	0.204	0.204	0.668	0.389

Table C3. Regressions using alternative measures for religion and trade credit

This table presents results using alternative measures for religion based on driving distance and driving time. The variables are defined in Appendix 1. All variables but the dummy variables are winsorized at the 1% and 99% levels. The numbers reported in parentheses are t-statistics based on heteroskedasticity-corrected errors clustered by firm and year. ***, **, and * indicate significant differences at the 1%, 5% and 10% levels respectively (two-sided).

VARIABLES	Driving Distance			Driving time		
	<=100Km	<=200Km	<=300Km	<=1.5h	<=2h	<=3h
	(1)	(2)	(3)	(4)	(5)	(6)
	AP	AP	AP	AP	AP	AP
<i>Religion</i>	0.094*** (2.96)	0.034*** (2.93)	0.018** (2.53)	0.149** (2.25)	0.149*** (4.00)	0.047*** (2.95)
<i>BLOAN</i>	-0.020 (-1.18)	-0.020 (-1.17)	-0.020 (-1.16)	-0.020 (-1.17)	-0.021 (-1.25)	-0.020 (-1.18)
<i>SGROWTH</i>	0.006*** (3.93)	0.006*** (4.02)	0.006*** (3.99)	0.006*** (3.89)	0.006*** (4.00)	0.006*** (4.01)
<i>CASH</i>	-0.084*** (-7.40)	-0.083*** (-7.39)	-0.082*** (-7.36)	-0.083*** (-7.25)	-0.083*** (-7.33)	-0.083*** (-7.33)
<i>LISTAGE</i>	-0.002 (-0.76)	-0.002 (-0.71)	-0.002 (-0.78)	-0.002 (-0.86)	-0.001 (-0.56)	-0.002 (-0.77)
<i>TQ</i>	0.003*** (2.80)	0.003*** (2.82)	0.003*** (2.82)	0.003*** (2.78)	0.003*** (2.83)	0.003*** (2.81)
<i>INVENTORY</i>	0.024** (2.13)	0.024** (2.17)	0.025** (2.18)	0.024** (2.15)	0.025** (2.18)	0.025** (2.18)
<i>SIZE</i>	0.006*** (2.66)	0.006*** (2.67)	0.006*** (2.73)	0.006*** (2.72)	0.006** (2.52)	0.006*** (2.67)
<i>ROA</i>	-0.073*** (-4.09)	-0.073*** (-4.08)	-0.072*** (-4.01)	-0.071*** (-4.06)	-0.073*** (-4.21)	-0.073*** (-4.08)
<i>TOP1</i>	0.000 (0.32)	0.000 (0.23)	0.000 (0.26)	0.000 (0.38)	0.000 (0.16)	0.000 (0.25)
<i>OUTRAT</i>	-0.041* (-1.74)	-0.041* (-1.72)	-0.039* (-1.67)	-0.041* (-1.74)	-0.045* (-1.94)	-0.042* (-1.78)
<i>MSDUM</i>	0.002 (0.78)	0.002 (0.75)	0.002 (0.78)	0.002 (0.75)	0.002 (0.77)	0.002 (0.73)
<i>Constant</i>	-0.066 (-1.49)	-0.067 (-1.51)	-0.070 (-1.58)	-0.067 (-1.53)	-0.060 (-1.35)	-0.066 (-1.49)
<i>Industry</i>	Y	Y	Y	Y	Y	Y
<i>Year</i>	Y	Y	Y	Y	Y	Y
<i>Observations</i>	7,119	7,119	7,119	7,119	7,119	7,119
<i>R-squared</i>	0.206	0.206	0.205	0.204	0.210	0.206

Table C4. Religion and trade credit: city-level analysis

This table presents the results of the regression model of the number of religious sites of the city (*MRelion*) and the average trade credits of firms located in the city (*MAP*). Standard errors are clustered at city level. All variables but the dummy variables are winsorized at the 1% and 99% levels.

VARIABLES	(1) MAP
MReligion	0.053*** (3.90)
Control	Y
Year	Y
Constant	0.034 (0.34)
Observations	1,641
R-squared	0.118

Table C5. The impact of different religions and religiosity diversity

This table presents the impact of different religions and religiosity diversity. Panel A results for the effect of different religions on accounts payable and Panel B shows the impact of religiosity diversity. In Panel B, we define $RELIGIONDIV = 1 - \sum_{i=1}^N (R_i/R)^2$, where N is the number of religions and R is the sum of different religions. R_i is the i^{th} religion. Other variables are defined in Appendix 1. All variables but the dummy variables are winsorized at the 1% and 99% levels. The numbers reported in parentheses are t-statistics based on heteroskedasticity-corrected errors clustered by firm and year. ***, **, and * indicate significant differences at the 1%, 5% and 10% levels respectively (two-sided).

Panel C5.1: The impact of accounts payable by religion

VARIABLES	(1) <i>AP</i>	(2) <i>AP</i>	(3) <i>AP</i>	(4) <i>AP</i>
<i>RELIGION_BUDDHISM</i>	0.023** (2.04)			
<i>RELIGION_TAOISM</i>		0.305*** (4.58)		
<i>RELIGION_CHRISTIANITY</i>			0.071*** (3.05)	
<i>RELIGION_ISLAM</i>				0.009 (0.17)
<i>BLOAN</i>	-0.020 (-1.16)	-0.021 (-1.27)	-0.020 (-1.16)	-0.020 (-1.14)
<i>SGROWTH</i>	0.006*** (3.91)	0.006*** (3.86)	0.006*** (4.01)	0.005*** (3.78)
<i>CASH</i>	-0.083*** (-7.32)	-0.083*** (-7.47)	-0.082*** (-7.42)	-0.083*** (-7.23)
<i>LISTAGE</i>	-0.002 (-0.93)	-0.002 (-0.75)	-0.001 (-0.69)	-0.002 (-1.12)
<i>TQ</i>	0.003*** (2.83)	0.004*** (2.91)	0.003*** (2.84)	0.003*** (2.76)
<i>INVENTORY</i>	0.025** (2.22)	0.024** (2.15)	0.024** (2.12)	0.025** (2.25)
<i>SIZE</i>	0.006*** (2.80)	0.006*** (2.89)	0.006*** (2.70)	0.006*** (2.86)
<i>ROA</i>	-0.072*** (-4.03)	-0.072*** (-4.14)	-0.073*** (-4.08)	-0.070*** (-3.96)
<i>TOP1</i>	0.000 (0.27)	0.000 (0.12)	0.000 (0.26)	0.000 (0.39)
<i>OUTRAT</i>	-0.041* (-1.73)	-0.043* (-1.83)	-0.040* (-1.70)	-0.042* (-1.76)
<i>MSDUM</i>	0.002 (0.72)	0.002 (0.50)	0.002 (0.73)	0.002 (0.66)
Constant	-0.070 (-1.60)	-0.079* (-1.78)	-0.069 (-1.56)	-0.070 (-1.61)
Industry	Y	Y	Y	Y
Year	Y	Y	Y	Y
Observations	7,119	7,119	7,119	7,119
R-squared	0.204	0.211	0.207	0.202

Panel C5.2: The impact of accounts payable by religiosity diversity

VARIABLES	(1) Diversity among all religions	(2) Diversity between Eastern and Western religions	(3) Diversity between Eastern religions (Buddhism and Taoism)	(4) Diversity between Western religions (Christianity and Islam)	(5) Diversity between Islam and other religions
<i>RELIGIONDIV</i>	0.031*** (2.87)	0.029** (2.41)	0.034*** (3.49)	-0.003 (-0.31)	-0.005 (-0.42)
<i>BLOAN</i>	-0.020 (-1.19)	-0.020 (-1.17)	-0.020 (-1.19)	-0.020 (-1.14)	-0.019 (-1.13)
<i>GROWTH</i>	0.006*** (3.84)	0.006*** (3.87)	0.005*** (3.66)	0.005*** (3.77)	0.005*** (3.76)
<i>CASH</i>	-0.083*** (-7.29)	-0.083*** (-7.22)	-0.083*** (-7.26)	-0.082*** (-7.23)	-0.082*** (-7.20)
<i>LISTAGE</i>	-0.002 (-0.84)	-0.002 (-0.87)	-0.002 (-1.15)	-0.003 (-1.15)	-0.003 (-1.15)
<i>TQ</i>	0.003*** (2.72)	0.003*** (2.76)	0.003*** (2.67)	0.003*** (2.78)	0.003*** (2.78)
<i>INVENTORY</i>	0.024** (2.12)	0.024** (2.12)	0.025** (2.21)	0.025** (2.24)	0.025** (2.25)
<i>SIZE</i>	0.006*** (2.89)	0.006*** (2.89)	0.006*** (3.00)	0.006*** (2.87)	0.006*** (2.88)
<i>ROA</i>	-0.070*** (-4.01)	-0.071*** (-4.01)	-0.068*** (-3.88)	-0.070*** (-4.00)	-0.070*** (-3.98)
<i>TOP1</i>	0.000 (0.39)	0.000 (0.35)	0.000 (0.38)	0.000 (0.39)	0.000 (0.38)
<i>OUTRAT</i>	-0.041* (-1.74)	-0.041* (-1.74)	-0.042* (-1.74)	-0.042* (-1.76)	-0.043* (-1.79)
<i>MSDUM</i>	0.002 (0.57)	0.002 (0.63)	0.002 (0.51)	0.002 (0.65)	0.002 (0.64)
Constant	-0.089** (-2.00)	-0.082* (-1.87)	-0.084* (-1.94)	-0.070 (-1.60)	-0.070 (-1.61)
Observations	7,119	7,119	7,119	7,119	7,119
R-squared	0.206	0.204	0.207	0.202	0.202

Table C6. Formal institution and the relations between religion and trade credit

This table presents results for the effect of law on the relation of religion and accounts payable. The variables are defined in Appendix 1. All variables but the dummy variables are winsorized at the 1% and 99% levels. The numbers reported in parentheses are t-statistics based on heteroskedasticity-corrected errors clustered by firm and year. ***, **, and * indicate significant differences at the 1%, 5% and 10% levels respectively (two-sided).

	Property right protection	lawyer/total population	preferential policy	treaty port
	(1)	(2)	(4)	(5)
VARIABLES	<i>AP</i>	<i>AP</i>	<i>AP</i>	<i>AP</i>
<i>RELIGION</i>	0.048*** (2.91)	0.040*** (2.83)	0.055** (2.44)	0.066** (2.54)
<i>RELIGION*FINSTITU</i>	-0.043** (-2.23)	-0.034* (-1.75)	-0.027* (-1.68)	-0.054** (-2.00)
<i>FINSTITU</i>	0.014** (1.97)	0.011 (1.39)	0.008 (1.63)	0.017** (2.57)
<i>BLOAN</i>	-0.020 (-1.18)	-0.020 (-1.20)	-0.020 (-1.18)	-0.020 (-1.17)
<i>SGROWTH</i>	0.006*** (3.88)	0.006*** (3.92)	0.006*** (3.91)	0.006*** (3.93)
<i>CASH</i>	-0.083*** (-7.76)	-0.083*** (-7.70)	-0.082*** (-7.46)	-0.084*** (-7.73)
<i>LISTAGE</i>	-0.002 (-0.79)	-0.002 (-0.71)	-0.001 (-0.64)	-0.001 (-0.56)
<i>TQ</i>	0.003*** (2.82)	0.003*** (2.82)	0.003*** (2.86)	0.003*** (2.83)
<i>INVENTORY</i>	0.025** (2.21)	0.025** (2.20)	0.025** (2.22)	0.024** (2.11)
<i>SIZE</i>	0.006*** (2.76)	0.006*** (2.74)	0.006*** (2.75)	0.006*** (2.74)
<i>ROA</i>	-0.074*** (-4.13)	-0.073*** (-4.07)	-0.073*** (-4.07)	-0.072*** (-4.10)
<i>TOP1</i>	0.000 (0.27)	0.000 (0.24)	0.000 (0.28)	0.000 (0.29)
<i>OUTRAT</i>	-0.038* (-1.65)	-0.040* (-1.74)	-0.039* (-1.67)	-0.040* (-1.73)
<i>MSDUM</i>	0.002 (0.69)	0.002 (0.70)	0.002 (0.61)	0.002 (0.58)
<i>Constant</i>	-0.077* (-1.76)	-0.074* (-1.71)	-0.081* (-1.79)	-0.083* (-1.87)
<i>Industry</i>	Y	Y	Y	Y
<i>Year</i>	Y	Y	Y	Y
<i>Observations</i>	7,119	7,119	7,119	7,119
<i>R-squared</i>	0.208	0.207	0.206	0.208

Table C7. Bank financing and the relations between religion and trade credit

This table presents results for the effects of bank financing on the relation of religion and accounts payable. The variables are defined in Appendix 1. All variables but the dummy variables are winsorized at the 1% and 99% levels. In Column (1), when we use bank loan as the dependent variable, it is not an explanatory variable. The numbers reported in parentheses are t-statistics based on heteroskedasticity-corrected errors clustered by firm and year. ***, **, and * indicate significant differences at the 1%, 5% and 10% levels respectively (two-sided).

	Bank loan	Financial development	Financial competition	Monetary policy
	(1)	(2)	(3)	(4)
VARIABLES	AP	AP	AP	AP
<i>RELIGION</i>	0.036*** (3.10)	0.076** (2.40)	0.074*** (2.88)	0.019*** (2.73)
<i>RELIGION*BFINANCING</i>	-0.100** (-2.14)	-0.006** (-2.18)	-0.006** (-2.35)	-0.029*** (-3.65)
<i>BFINANCING</i>	0.008 (0.31)	0.003*** (2.60)	0.002* (1.87)	-0.008 (-1.34)
<i>BLOAN</i>	omitted —	-0.021 (-1.20)	-0.021 (-1.21)	-0.019 (-1.11)
<i>SGROWTH</i>	0.006*** (4.02)	0.006*** (4.06)	0.006*** (4.00)	0.005*** (3.44)
<i>CASH</i>	-0.083*** (-7.42)	-0.084*** (-7.75)	-0.083*** (-7.71)	-0.081*** (-7.70)
<i>LISTAGE</i>	-0.002 (-0.74)	-0.001 (-0.60)	-0.001 (-0.59)	-0.001 (-0.57)
<i>TQ</i>	0.003*** (2.86)	0.003*** (2.82)	0.003*** (2.87)	0.003** (2.44)
<i>INVENTORY</i>	0.026** (2.31)	0.024** (2.12)	0.024** (2.15)	0.025** (2.24)
<i>SIZE</i>	0.006*** (2.76)	0.006*** (2.62)	0.006*** (2.64)	0.006** (2.53)
<i>ROA</i>	-0.072*** (-4.14)	-0.074*** (-4.18)	-0.073*** (-4.10)	-0.003 (-0.13)
<i>TOP1</i>	0.000 (0.21)	0.000 (0.24)	0.000 (0.17)	0.000 (0.20)
<i>OUTRAT</i>	-0.042* (-1.79)	-0.043* (-1.82)	-0.040* (-1.69)	-0.040* (-1.72)
<i>MSDUM</i>	0.002 (0.63)	0.002 (0.72)	0.002 (0.73)	0.002 (0.66)
Constant	-0.076* (-1.74)	-0.090** (-2.03)	-0.080* (-1.82)	-0.063 (-1.43)
Industry	Y	Y	Y	Y
Year	Y	Y	Y	Y
Observations	7,119	7,119	7,119	7,115
R-squared	0.208	0.209	0.208	0.211

Table C8. Religion and trade credit overdue

This table presents results for the effect of religion on trade credit overdue. The variables are defined in Appendix 1. All variables but the dummy variables are winsorized at the 1% and 99% levels.

VARIABLES	(1) <i>AP(≤1 year)</i>	(2) <i>AP(>1 year)</i>	(3) <i>AP_DUE</i>
<i>RELIGION</i>	0.022*** (3.49)	-0.005*** (-4.40)	-0.091*** (-6.83)
<i>BLOAN</i>	-0.021 (-1.38)	-0.002 (-0.76)	-0.053 (-1.60)
<i>SGROWTH</i>	0.004*** (2.75)	0.001 (1.42)	0.005 (0.70)
<i>CASH</i>	-0.073*** (-5.84)	-0.007*** (-3.35)	-0.048* (-1.78)
<i>LISTAGE</i>	-0.002 (-0.93)	0.001* (1.71)	0.024*** (4.35)
<i>TQ</i>	0.002* (1.66)	0.001*** (3.43)	0.009*** (3.42)
<i>INVENTORY</i>	0.012 (1.12)	0.010*** (3.00)	0.035 (1.10)
<i>SIZE</i>	0.007*** (3.44)	-0.001 (-1.30)	-0.017*** (-4.29)
<i>ROA</i>	-0.036** (-2.31)	-0.026*** (-6.24)	-0.237*** (-4.08)
<i>TOP1</i>	0.000 (0.92)	-0.000* (-1.75)	-0.000 (-1.28)
<i>OUTRAT</i>	-0.034 (-1.54)	-0.005 (-0.86)	0.087 (1.00)
<i>MSDUM</i>	0.004 (1.41)	-0.001 (-1.59)	-0.013** (-1.97)
Constant	-0.092** (-2.26)	0.018 (1.57)	0.383*** (4.24)
Industry	Y	Y	Y
Year	Y	Y	Y
Observations	7,080	7,080	7,064
R-squared	0.182	0.087	0.090

Table C9. The number of registered religious groups and trade credit

This table presents results for the effect of the number of registered religious groups (GroupNum) in the firm's headquartered county on trade credit. The variables are defined in Appendix 1. All variables but the dummy variables are winsorized at the 1% and 99% levels.

VARIABLES	POLS	FE
	(1)	(2)
GroupNum	0.158* (1.90)	0.144** (1.99)
Bloan	-0.023 (-1.18)	-0.023 (-1.48)
Sgrowth	0.004*** (2.68)	0.004*** (3.15)
Cash	-0.088*** (-7.76)	-0.088*** (-9.82)
Age	-0.002 (-0.83)	-0.001 (-0.53)
Tq	0.003** (2.33)	0.003*** (2.58)
Inventory	0.020* (1.79)	0.013 (0.85)
Size	0.006** (2.53)	0.003 (1.25)
Roa	-0.068*** (-2.84)	-0.062*** (-3.64)
Top1	-0.000 (-0.15)	-0.000* (-1.80)
Outrat	-0.040* (-1.73)	-0.017 (-0.99)
MSdum	0.002 (0.66)	-0.003 (-1.43)
Year	Yes	Yes
Industry	Yes	Yes
Firm Fixed Effect	No	Yes
Constant	-0.046 (-1.04)	0.023 (0.48)
Observations	5,772	5,772
R-squared	0.212	0.201

Table C10. Results based on a sub-sample of firms that experience relocation

This table presents results for the effect of religion on trade credit based on sub-sample of firms that experience relocation. The variables are defined in Appendix 1. All variables but the dummy variables are winsorized at the 1% and 99% levels.

VARIABLES	(1) 100km	(2) 150km	(3) 200km	(4) 250km
Religion	0.105** (2.31)	0.044* (1.81)	0.042** (2.27)	0.038** (2.48)
Bloan	-0.020 (-1.53)	-0.020 (-1.54)	-0.019 (-1.44)	-0.018 (-1.39)
Sgrowth	0.005*** (3.59)	0.005*** (3.52)	0.005*** (3.56)	0.005*** (3.56)
Cash	-0.081*** (-4.88)	-0.081*** (-4.85)	-0.081*** (-4.88)	-0.081*** (-4.86)
Age	0.006 (0.55)	0.006 (0.52)	0.006 (0.56)	0.007 (0.62)
Tq	0.003*** (3.38)	0.003*** (3.38)	0.003*** (3.32)	0.003*** (3.32)
Inventory	0.006 (0.40)	0.008 (0.53)	0.007 (0.51)	0.008 (0.55)
Size	-0.001 (-0.35)	-0.001 (-0.31)	-0.001 (-0.37)	-0.001 (-0.38)
Roa	-0.063*** (-3.67)	-0.064*** (-3.68)	-0.063*** (-3.65)	-0.063*** (-3.63)
Top1	-0.000 (-0.65)	-0.000 (-0.65)	-0.000 (-0.64)	-0.000 (-0.67)
Outrat	-0.145*** (-3.33)	-0.146*** (-3.33)	-0.146*** (-3.34)	-0.147*** (-3.36)
MSdum	-0.007 (-1.24)	-0.007 (-1.34)	-0.007 (-1.37)	-0.007 (-1.38)
Firm Fixed Effect	Yes	Yes	Yes	Yes
Year Fixed Effect	Yes	Yes	Yes	Yes
Constant	0.114* (1.67)	0.115* (1.68)	0.116* (1.69)	0.113* (1.66)
Observations	1,169	1,169	1,169	1,169
Number of Firms	176	176	176	176
R-squared	0.099	0.097	0.099	0.100

Appendix D. Background of the localization of trading partners in China

The culture differences, market segmentation and natural barriers across provinces leader to the localization of trading partners in China. We analyze the information on the top 5 suppliers of Chinese listed firms from annual reports and find that suppliers from the same province account for around 40% of supply, and the suppliers from the same province or neighboring provinces account for 55%. The localization of small supplier is likely to be higher given the principle of cost-benefit and economies of scale. These figures further highlight the important role of regional religiosity.

China is a county with 9.60 million square kilometers of land, which is divided into 34 provinces (Tian et al., 2017). There are huge differences in customs, culture, language and philosophy across these provinces, due to the development history of the provinces (Wu et al., 2014). These differences bring about obstacles to sociocultural integration, particularly to the perceptual and cognitive factors (Stahl and Voigt, 2008). In addition, China's administrative divisions tend to be bounded by natural barriers such as the great mountain or river. For example, Shanxi and Shaanxi are bounded by Yellow River; Henan and Anhui are bounded by Dabie Mountain; Xinjiang and Xizang are bounded by Kunlun Mountains; Shanxi and Hebei is bounded by Tai-hang Mountains. These natural barriers increase the cost to the economic exchanges between each other. Finally, there is evident market segmentation among provinces in China (Kumar, 1994; Young, 2000), which makes it costly for the flow of products and capital across provinces. These arguments in the literature suggest possible reasons for the localization of trading partners.

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